



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Postal Life Insurance Company Limited**

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Oct-2023	A+ (ifs)	-	Stable	Maintain	-
21-Oct-2022	A+ (ifs)	-	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Pakistan's Life Insurance sector face challenges due to an unexpected rise in inflation leading to a decrease in the disposable incomes. To adapt, sector players shifted their focus from first-year persistency to second-year, prioritizing top-line growth. However, the market size of the Life Insurance sector with respect to the Gross Premiums Written (GPW) posts growth of ~28% in CY22. On the expense side, gross claims grew by ~47%. While the loss ratio, with respect to both the private and public segments, has also been gradually rising. The sector's outlook is expected to remain stable, supported by the investment income. On the financial risk side, the sector is expected to maintain liquidity. Going forward, sluggish economic pace may impact the sector's overall stability.

The assigned rating derives assurance from Postal Life Insurance Company Limited ('Postal Life' or 'the Company') a wholly owned subsidiary of the Govt. of Pakistan (GoP), through the Ministry of Communications. The GoP has also injected equity of PKR 4bln, which is a testimony of GoP's vision and commitment to the Company. The rating derives comfort from the outreach of Postal Life through the vast branch network of Pakistan Post, spread across the country. The GoP formulated Postal Life as a separate legal entity, in Mar'20, which operates under the regulatory framework of the SECP. The Company is in the process of approval of the "Postal Life Insurance Act, 2021" from the Parliament of Pakistan. Postal Life has two separate funds namely: i) Post Office Business Fund (POBF) & ii) Pakistan Business Fund (PBF) for distinct management of legacy and new businesses. POBF is established for claims related to legacy business. Whereas, PBF is established to pay off obligations related to the new business of Postal Life. The audit of the financial statements for the period ended 31 December, 2022 is at an advanced stage. It has been delayed due to extraneous factors, as represented by the management. Timely completion of audit is a pre-requisite. The Company GPW posted growth; however, substantial uptick in the policy surrenders significantly reduced the Company's bottomline. Overall financial performance of the Company can be described as adequate. On the financial risk front, the ratings factor in healthy capital position, strong risk absorption capacity, sufficient liquidity of the investment portfolio (mainly government securities).

The Company's ongoing ability to independently sustain statutory funds, and enhance its market position and core profitability are critical factors. The streamlining of audit procedures remains integral to sustaining the rating. Moreover, prudent management of risk and agency models remains important. Further, the approval of the "Postal Life Insurance Act, 2021" from Pakistan's Parliament, along with the realization of accrued interest income on the promissory note holds significant weight in the assessment of the rating.

**Disclosure**

<b>Name of Rated Entity</b>	Postal Life Insurance Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Jun-22),Methodology   Life Insurance Rating(Mar-23)
<b>Related Research</b>	Sector Study   Life Insurance(Jun-22)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Postal Life Insurance Company Limited ('Postal Life' or 'the Company') was incorporated as a public limited company under the repealed Companies Ordinance, 1984 (now called Companies Act, 2017) in Mar-20.

**Background** Postal Life, part of a government department rendered insurance related services through General Post Office (GPO) to secure the lives of postal mail runners since 1884. Later, the services were extended to other govt. employees. In 1947, GPO started offering its services to general public. In Mar-20, a separate legal entity was incorporated and named Postal Life. Lately, the Company is in process of approval for "Postal Life Insurance Act, 2021" from concern departments/ministries.

**Operations** Postal Life provides individual, group life and savings solutions through a vast network of GPOs and 47 field offices spanning all across Pakistan. Whereas, the principal office is located in Islamabad.

## Ownership

**Ownership Structure** Postal Life is wholly owned by Govt. of Pakistan (GoP), through the Ministry of Communications.

**Stability** The ownership of the Company will remain stable.

**Business Acumen** Postal Life, a Govt. owned enterprise, operates under the Ministry of Communications; thus, the GoP appoints relevant individuals with requisite experience to run the operations of the Company.

**Financial Strength** The GoP injected PKR 4bln as equity in the Company. Moreover, the GoP has committed to provide funds of ~PKR 48bln along with outstanding claim determined by actuarial valuation. Whereas, actuarial valuation report has shown cumulative policyholders liabilities of ~PKR 60bln (net off outstanding policyholders loans).

## Governance

**Board Structure** Postal Life's Board (BoD) composition is approved by the Cabinet. The Company has a seven-member Board, comprising three Non-Executive (Govt. officials), three Independent and one Executive Director.

**Members' Profile** The BoD is chaired by Capt.(R) Mr. Mohd. Khurram Agha, an officer of Pakistan Administrative Service. He holds an experience of more than two decades in managing different Govt. entities. Other two Govt. officials are: Additional Secretary Finance and Director General of Pakistan Post. Other members of the BoD are experienced professionals.

**Board Effectiveness** To ensure effective governance, the BoD is assisted by four committees: i) Ethics, HR & Remuneration (E, HR&R), ii) Investment (IC), iii) Procurement (PC) and iv) Audit Committee (BAC). The BoD meets on a quarterly basis to discuss a formally circulated agenda. Minutes of the meetings are adequately maintained.

**Financial Transparency** The External Auditor's, M/S BDO Ebrahim & Co, Chartered & Accountants, provided an unqualified opinion of financial statements for the year ended Dec-22. However, the auditor has added emphasis of matter regarding chargeability sales tax on premium by provincial revenue authority.

## Management

**Organizational Structure** The Company has adopted a horizontal hierarchical structure comprising several departments; including HR, Finance, Actuarial & Strategic Planning, Operations, IT, Sales & Marketing, Investment, Compliance, and Internal Audit, each managed by a dedicated Functional Head. These Heads report directly to the Company's CEO, who, in turn, reports to the Board of Directors.

**Management Team** Mr. Hafiz Shakeel Ahmed, was appointed as Acting CEO of Postal Life with an experience of above two decades. He holds the positions of Director General at Pakistan Post and Chairman of Postal Services. He is supported by a team of seasoned professionals.

**Effectiveness** The management is assisted by three management committees: Underwriting & Reinsurance, Claim Settlement, and Risk Management & Compliance Committee. These committees meet on quarterly basis to discuss pertinent operational matters of the Company. Minutes of these meetings are adequately maintained.

**Claim Management System** Claims are initiated by field officers who prepares and complete file and forward it to claim department. Claims of higher amounts require CEO's approval. After approval from relevant authoritative person, the list is prepared and sent to the finance department, where the payments are processed.

**Investment Management Function** The BoD has approved an Investment Policy specifying guidelines for investment in each assets class of each fund. The IC monitors performance according to those guidelines.

**Risk Management Framework** The Risk Management & Compliance Committee evaluates, manages and monitors organizational risk at the management level. Ongoing efforts are being made to strengthen the implementation of the Committee's framework.

## Business Risk

**Industry Dynamics** Life Insurance industry in Pakistan reported at ~PKR 185bln, indicating a notable growth of ~18% YoY (6MCY22: ~PKR 157bln). Life Insurance Industry in Pakistan is dominated by public sector contributing ~67% of Gross Premiums Written (GPW) during 6MCY23. Net claims increased by ~49% to ~PKR 113bln during 6MCY23. Investment income of industry increased by ~85% to ~PKR 101bln. Overall, higher GPW and improved investment income resulted in net profitability of ~PKR 7.8bln during 6MCY23. Takaful industry plays a crucial role in the Islamic financial system, offering a diverse range of risk protection products and services that complement existing options for consumers.

**Relative Position** Postal Life is in its initial gestation phase; and currently, its market share is less than ~1% in terms of GPW.

**Persistency** Continuity of premium payments is a critical aspect of the life insurance business. The first-year persistency of the Company stands at an impressive ~111% during CY22. Further, the subsequent year's persistency ratio stands at ~152%, reflecting successful retention of policyholders by the Company.

**Revenue** During CY22, Postal Life achieved a GPW of ~PKR 3,047mln, demonstrating a growth rate of ~22% (CY21: PKR 2,492mln). A significant portion of the GPW was driven by the subsequent year's renewable policies amounting to ~PKR 2,631mln (CY21: PKR 1,601mln). Additionally, Postal Life has successfully maintained first-year premium at ~PKR 84mln (CY21: ~PKR 83mln).

**Profitability** The Company experienced a decline in underwriting performance, with an underwriting loss of ~PKR 4,999mln in CY22, compared to ~PKR 1,463mln in CY21. This shift was primarily attributed to an increase in claims. The Company's bottom line also saw a downturn, reporting at ~PKR 432mln in CY22 (CY21: ~PKR 1,008mln).

**Investment Performance** Postal life holds an investment book of PKR~ 4,230mln (CY21: ~PKR 5,087mln) as of CY22, majorly concentrated towards Government Securities (~93%). Whereas, investment income of the Company stood at ~PKR611mln in CY22 (CY21: ~PKR219mln).

**Sustainability** The Company intends to enhance its digital space in order to provide continuous services to its policyholders. The management is planning to increase market share by retention and training current staff with industry-specific knowledge.

## Financial Risk

**Claim Efficiency** GoP has issued a promissory note of ~PKR 48bln. The claim related to legacy business will be paid by the GoP till date of the issue of the promissory note. Whereas, subsequent liabilities will be borne by Postal Life. The Company has paid claims of ~PKR 5,615mln in CY22 (CY21: PKR 3,704mln).

**Re-Insurance** Postal Life has reinsurance treaties with "Swiss Re" Rated "AA-(Very Strong)" by S&P, "Aa3(Excellent)" by Moody's & "A+(Superior)" by A.M. Best.

**Cashflows & Coverages** In CY22, the Company's liquid assets amounted to ~PKR 4,230mln. Liquid assets to net insurance premium ratio stood at ~1.5x (CY21: ~2.0x) reflecting a moderate liquidity position.

**Capital Adequacy** Postal Life has a total equity base of PKR 5,456mln as at period ended CY22 (CY21: ~PKR 5,022mln). An increase in equity owing to an increase in reserves coupled with unappropriated profits.



PKR mln

Postal Life Insurance Company Limited  
Public Limited

Dec-22	Jun-22	Dec-21
12M	6M	12M

## A BALANCE SHEET

1 Investments	4,230	5,547	5,087
2 Insurance Related Assets	468	401	253
3 Other Assets	70,645	67,727	65,861
4 Fixed Assets	14	16	12
<b>Total Assets</b>	<b>75,357</b>	<b>73,691</b>	<b>71,213</b>
5 Underwriting Provisions	-	-	-
6 Insurance Related Liabilities	67,093	68,317	65,888
7 Other Liabilities	2,808	397	303
8 Borrowings	-	-	-
<b>Total Liabilities</b>	<b>69,901</b>	<b>68,714</b>	<b>66,191</b>
<b>Equity</b>	<b>5,456</b>	<b>4,976</b>	<b>5,022</b>

## B INCOME STATEMENT

1 Gross Premium Written	3,047	1,594	2,493
2 Net Insurance Premium	3,045	1,593	2,492
3 Underwriting Expenses	(6,044)	(2,569)	(3,955)
<b>Underwriting Results</b>	<b>(2,999)</b>	<b>(975)</b>	<b>(1,463)</b>
4 Management Expenses	(654)	(327)	(315)
5 Investment Income	611	272	219
6 Other Income / (Expense)	6,376	3,158	4,640
7 Net Change in Reserve for Policyholders' Liabilities	(2,704)	(1,614)	(1,990)
<b>Profit Before Tax</b>	<b>629</b>	<b>515</b>	<b>1,091</b>
8 Taxes	(196)	(56)	(82)
<b>Profit After Tax</b>	<b>432</b>	<b>459</b>	<b>1,008</b>

## C RATIO ANALYSIS

### 1 Profitability

Loss Ratio (Net Insurance Claims / Net Insurance Premium )  
Combined Ratio (Loss Ratio + Expense Ratio)

184.4%	150.0%	148.6%
220.0%	181.7%	171.4%

### 2 Investment Performance

Investment Income / Operating Profit

-20.1%	-26.4%	-14.0%
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### 3 Liquidity

(Liquid Assets - Borrowings) / Outstanding Claims

25.10	10.88	9.34
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### 4 Capital Adequacy

Liquid Investments / Equity

0.78	1.11	1.01
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### Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of an insurance company to meet policy holders and contractual obligations.

Scale	Definition
<b>AAA (ifs)</b>	<b>Exceptionally Strong.</b> Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<b>Very Strong.</b> Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<b>Strong.</b> Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<b>Good.</b> Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<b>Modest.</b> Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<b>Weak.</b> Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<b>Very Weak.</b> Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
<b>D (ifs)</b>	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.</p>	<p><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.</p>	<p><b>Suspension</b> It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

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(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

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(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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